Low Income Housing Tax Credit

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History

- The Low Income Housing Tax Credit (LIHTC) Program was created by Congress in 1986 as part of the Tax Reform Act to encourage the construction and rehabilitation of existing rental housing for low-income households.
- The LIHTC Program is commonly referred to as Section 42 which is the applicable section of the Internal Revenue Code (IRC) & the program is jointly administered by the IRS and each state tax credit allocation agency - (IFA).

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Tax Incentives

- The LIHTC program provides tax incentives to individual or corporate investors who invest in the development, acquisition, and rehabilitation of tax credit projects.
- The investor incentive is the ability to claim tax credits on their federal income tax returns annually over a 10-year period.
- The tax credit is calculated as a percentage of costs incurred in developing the LIHTC project.

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Tax Credit Allocation

- IFA receives an annual amount of tax credits based upon a statutory dollar amount per state population.

  For 2014 this was $7,107,956 ($2.30 X 3,090,416)

- IFA's Qualified Allocation Plan details the allocation threshold requirements, selection criteria, and housing priorities.

- Developers submit on-line applications for the competitive allocation round or may submit a 4% tax-exempt bond financed application any time after the competitive allocation round.

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Qualified Allocation Plan

IFA's Qualified Allocation Plan sets forth requirements such as:

- ✓ Threshold Requirements
- ✓ Underwriting Standards
- ✓ Scoring Criteria
- ✓ Construction Requirements
- ✓ Fees
- ✓ Appeal Process
- ✓ Post Reservation Requirements

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Application

- IFA evaluates all initial applications and recommends projects for tax credit awards to the IFA Board. Competitive allocations are typically awarded in March.
- A project may not be recommended for credits for one of the following reasons:
  - ✓ Market
  - ✓ Underwriting (financial feasibility)
  - ✓ Ineligible Party
  - ✓ Low score

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Tax Credit Calculation

- Credits are calculated based upon eligible project costs. *Eligible Basis X Applicable Fraction = Qualified Basis X Applicable Percentage = Annual Credit Amount*

  $6,493,507 X 100% = $6,493,507 X 7.70% = $500,000

- Projects receiving an award of credits will sell the tax credits to an investor for equity. In 2014, the average price paid was $.86 per credit.

  Equity calculation based on a $500,000 annual tax credit award
  500,000 X 10 years X $.86 = $4.3 million

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Timeframe of LIHTC

- Once awarded, a Developer has two years to get the project placed into service or lose the credits.
- LIHTC staff will review awarded projects two additional times and evaluate the sources and uses of the project's funds and operating expenses.
- IFA must issue the IRS form 8609 to the Ownership Entity in order for credits to be claimed.

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8609

- IFA will issue IRS form(s) 8609 showing the final credits allocated to each building in the project. This is required before credits can be claimed.
- The investor claims the tax credits annually for a 10-year period.
- The equity generated from the sale of the tax credits reduces the Owner's debt which allows the project to charge lower rent and still be financially viable affordable housing project.

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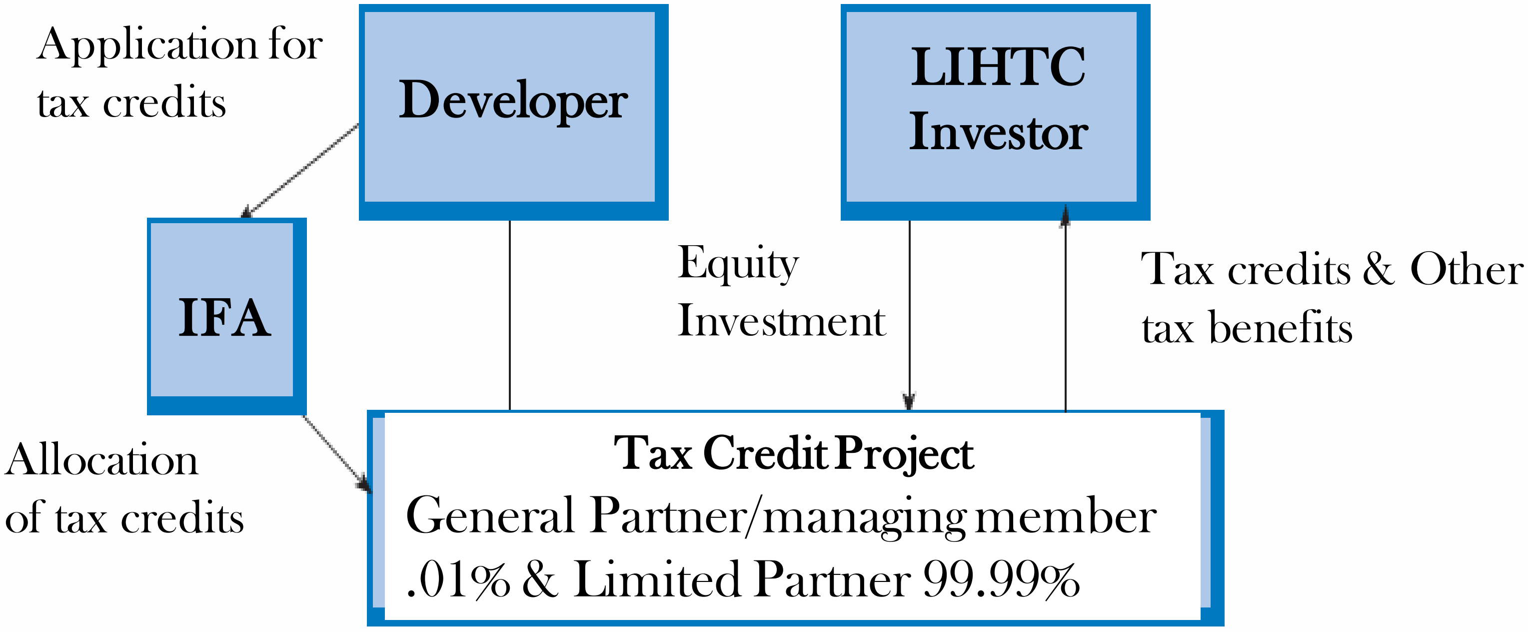
Art of the Deal

Basic Structure of a Tax Credit Project with Direct Investor



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Long-term Compliance

- Rent, income, and state restrictions must be maintained for the 15-year compliance period and a 15-year extended use period for a total of 30 years.
- Amenities have to be maintained for the 30-year period as well.
- The requirements are enforced through a Land Use Restrictive Covenants Agreement (LURA) recorded against the property.

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Number of Units

- In the past three years, IFA has awarded over $25 million in annual tax credits to construct or rehabilitate 2,361 affordable units.

Three (3) Year Applicant & Award Summary

2014	2013	2012
650 LIHTC Units	707 LIHTC Units	1004 LIHTC Units
$7,693,893	$7,770,626	$10,191,008
44 Applicants	41 Applicants *(includes RD Preservation Demo Apps)	46 Applicants
15 Awards	15 Awards	19 Awards
34%	36.5%	41%

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Year 2013

- As the state tax credit allocating agency, the IRS requires IFA to report its annual allocations by February 28th of each year.
- For calendar year 2013, IFA reported a credit allocation of $7.7 million.
- $2.9 of the $7.7 million was allocated to projects with materially participating qualified nonprofits.
- 15 projects received carryover allocation agreements.
- 146 8609's were issued.

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